Bovis Corporation Limited

1978 Annual Report

Two views of the powerhouse excavation at the Hinds Lake Power Development Project. Work is being carried out by the Construction Division of McNamara Corporation of Newfoundland Limited for the Newfoundland and Labrador Power Commission.

Bovis Corporation Limited

Bovis Corporation Limited
and
McNamara Corporation Limited
243 Consumers Road
Willowdale, Ontario
Telephone — 493-2770

Bovis Corporation Limited

Interim Report to Shareholders

Six Months

Ended June 30th, 1978

Bovis Corporation Limited

President's Report

The reported net loss for the six months ended June 30, 1978 of $2,330,000 on a volume of $23,875,000 compares with net earnings of $3,037,000 on a volume of $26,893,000 for the same period in 1977. The 1977 results included an exceptional net of tax claim recovery of $5,400,000. Also in 1977, revenues from our Residential Property Division exceeded expectations in the first half of the year, an achievement which has not been duplicated to date in 1978's slow markets. However, land sale negotiations currently underway would indicate that this situation is improving.

Since the end of May, our construction divisions have been awarded contracts in excess of $55,000,000 including the recent award of a $25,400,000 hydro-electric project in Newfoundland. These awards have resulted in a backlog of contract work in hand which is more than double the volume achieved by these divisions in any of the past several years. Although construction operations got off to a slow start in the first half, a very strong second-half performance is anticipated together with a substantial carry-over of work into 1979.

Our Equipment Supply operations have shown a modest improvement in operating results to date, returning small profits in both May and June despite the continuing depressed state of the industry in general.

In 1977, the Company reported a loss from discontinued operations of $1,653,000 for the six month period. Additional losses and provisions increased this loss to $4,612,000 by year-end 1977. No losses have been suffered to date in 1978 on the disposition of assets remaining in this category. However, the timing of such disposals has been slower than anticipated and additional provisions for carrying costs may be required during the second-half if the situation does not improve.

Despite the continuing burden placed upon the Company by the discontinued operations, we feel most encouraged by the steady improvement in the financial stability and profitability of our ongoing operations. Whereas these improvements have not transpired as quickly as we had hoped, the foundations for future profits are being soundly and carefully constructed.

On behalf of the Board,

President & Chief Executive Officer

UNAUDITED CONSOLIDATED STATEMENT OF EARNINGS (LOSS) & DEFICIT

FOR THE SIX MONTHS ENDED JUNE 30, 1978

	1978	1977
Gross Revenue	**$23,875,000**	$26,893,000
Costs and Expenses:		
Cost of sales and other expenses	**23,860,000**	24,790,000
Depreciation and lease costs	**1,357,000**	1,471,000
Interest and other financing costs	**988,000**	1,342,000
	26,205,000	27,603,000
Earnings (Loss) from operations before the undernoted	**(2,330,000)**	(710,000)
Recovery of California Claim less Provision for Income Taxes of $5,300,000	—	5,400,000
Loss from discontinued operations	—	(1,653,000)
Net Earnings (Loss) for the period	**($2,330,000)**	$3,037,000
Earnings (Loss) per share	**(16.5¢)**	21.5¢

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

AS AT JUNE 30, 1978

Use of Funds:		
Net Loss (Earnings)	**$ 2,330,000**	$(3,037,000)
Depreciation	**(848,000)**	(902,000)
	1,482,000	(3,939,000)
Payment of (provision for) income taxes on claim recovery	**502,000**	(4,700,000)
Increase (decrease) in net assets of discontinued operations	**1,338,000**	(638,000)
Increase in net assets of ongoing operations	**3,961,000**	3,049,000
Purchase of plant and equipment, net	**195,000**	1,209,000
Increase (decrease) in Bank Borrowings	**7,478,000**	(5,019,000)
Bank Indebtedness, including Term Loans at beginning of year	**8,384,000**	22,684,000
Bank Indebtedness, including Term Loans at June 30th	**$15,862,000**	$17,665,000

Bovis Corporation Limited

1978 Annual Report

BOARD OF DIRECTORS

R. L. Beaulieu, Q.C.

O. Brooks (London, England)

R. MacTavish

R. F. Martin

Wm. V. Moore

M. Paris (London, England)

E. J. Spence

OFFICERS OF THE COMPANY

R. MacTAVISH
President & Chief Executive Officer

W. B. DILLY
Vice-President

C. L. LISTER
Vice-President, Finance, & Secretary

R. F. MARTIN
Vice-President

G. B. MORRIS
Vice-President

J. W. WHITE
Vice-President

A. W. KNICKLE
Controller

CORPORATE OFFICES

243 Consumers Road, Willowdale, Ontario Telephone: (416) 493-2770
Telex: 06966856

Auditors:
Touche Ross & Co.

Bankers:
The Royal Bank of Canada

Transfer Agents and Registrar:
Crown Trust Company,
302 Bay Street, Toronto, Ontario

Transfer Agent (U.S.A.):
The Bank of New York,
90 Washington Street,
New York City, New York

Bonding Company:
Travelers Indemnity Company
of Canada

Contents

To The Shareholders

For the year ended December 31, 1978, Bovis Corporation Limited had a net loss of ($1,713,000) on gross revenues of $76,710,000 compared with net earnings of $1,164,000 on gross revenues of $56,753,000 in 1977. (The 1977 results included a claim recovery from the State of California of $5,694,000 net of tax).

Ongoing operations of the Company produced a profit of $1,577,000 in the Fourth Quarter of 1978 reducing the full year's loss from operations to ($376,000) compared with a profit of $82,000 in 1977.

Losses incurred and provisions for future losses from discontinued operations for the year ended December 31, 1978 totalled ($1,337,000) compared with a loss of ($4,612,000) in 1977.

Although the 1978 results are unsatisfactory, continuing improvements have been achieved in ongoing operations as highlighted in the following Review of Operations.

REVIEW OF OPERATIONS

Newfoundland Construction

The Construction Division of McNamara Corporation of Newfoundland Limited ended the year with a volume of $21,000,000 compared with $12,000,000 in 1977. Satisfactory profits were realized on the substantially increased volume, although many of the projects were at an early stage of completion and it is the Company's policy to defer full recognition of profits until projects are well underway.

The major projects carried out in 1978 were the completion of the new docking facilities at Port aux Basques, the construction of the Waterford Valley Sewage System in Mount Pearl, the construction of 26 kilometers of highway on the North West Coast of the Province and the start of the $26,000,000 power development at Hinds Lake for the Newfoundland and Labrador Power Corporation, which is scheduled for completion in September, 1980. The substantial carry-over of work ($30,000,000, $22,000,000 of which is scheduled for completion in 1979) and the new work prospects for 1979 should result in much improved profits from this division.

Due in part to the continuing programme of updating the equipment fleet, but primarily because of the increased equipment requirements resulting from the level of work in hand, over $7,000,000 of capital expenditures were made in 1978.

Marine Operations

The Marine Division's volume of $14,000,000 in 1978 was almost double the $7,600,000 achieved in 1977 with profits increasing proportionately. The major projects carried out during the year were the construction of a concrete crib dock for La Societe du Parc Industriel du Centre du Quebec, South Shore, Becancour, Quebec, and the construction of a concrete crib dock and fill for construction of a container pier for the National Harbours Board, Fairview Cove, Halifax. Both projects are scheduled for completion in June 1979.

There is a substantial volume of carry-over work ($11,000,000) much of which has been subcontracted out resulting in lower margins. However, this division has been low bidder on

about $20,000,000 of new work tendered in 1979, which is expected to be awarded and which combined with the carry-over work should produce satisfactory profits in the current year.

McNamara Industries

Despite an increase in steel fabrication and erection volume of about $1,000,000 to $6,500,000 in 1978, profits were marginally lower due to very competitive conditions and shortages in domestic and foreign steel supplies. The major projects awarded in 1978 were the supply, manufacture and erection of a Transfer Bridge superstructure at Port aux Basques, design, supply and erection of hydraulic sluice gates for the Hinds Lake project and the construction of 30 cement silos for Marystown Shipyards.

In 1978, in order to maintain its competitive position, the division completed substantial improvements to its production facilities. These improvements included a modern Beam Line installation which, together with other related expenditures, improved the fabricating facilities and material flow through the plant.

With the deferral of some major contract work due to supply shortages, the division's carry-over volume of work is in excess of the volume achieved in 1979.

Equipment Federal/General Supply

The equipment distributorships in Ontario and Quebec reported in excess of $25,000,000 volume, a 25% increase over 1977 levels (including sales of discontinued lines). The volume improvement combined with tight cost controls and overhead reductions, enabled the divisions to generate nominal profits in 1978, a most significant and gratifying turn-around from prior years' results. Much of the improvement experienced in 1978 is attributable to a resurgence of and a concentration of sales effort in the mining and forestry markets.

Concrete Products

This division had a successful year in 1978, maintaining its profit level, with a volume of $6,150,000, up nominally from 1977. The outlook for 1979 is difficult to forecast at this time as to date no major tenders have been called for new work.

Control & Metering

This division, with expanded activities in the Montreal area, increased its volume from the design, supply and installations of water treatment and monitoring devices from $2,700,000 to $3,600,000 and produced a modest profit. Equivalent volumes appear assured for 1979.

Project Management

Early in 1978 this new division commenced exploration of the market for opportunities to provide project managment or engineering services. Several good contacts were developed and

a number of future work prospects are identified. Utilization of existing in-house expertise has enabled the division to keep costs at a minimum and no significant expansion of the division is planned until substantial contracts are obtained.

Property

No net reduction in the assets of discontinued property operations was experienced during the year because the sales that were made of the remaining Toronto area commercial properties were offset by the costs incurred to finish construction of the Centre West office building in Edmonton and the reaquisition of the Ontario Housing Division which was necessitated as a result of the insolvency of the purchaser.

A further disappointment on the property side was the failure of the Residential Property Division to achieve anticipated sales and profits. The small loss from this division compared with profit achievements in prior years, had the effect of obscuring the overall improvement during the year in the results of other ongoing operations.

Because of the increased volume in our construction operations and the consequent need for increased working capital, the Board of Directors has recently concluded that the property disposition programmes should be accelerated. The Company's current posture is therefore to convert its real estate assets into cash as quickly as possible in order to alleviate the increase in bank borrowings that will be required to finance ongoing construction work in 1979. This accelerated programme of disposition may again result in some further net losses from discontinued activities in 1979.

CONCLUSION

A review of operations indicates that the general trend of the Company's activities is towards a more cohesive and controllable operation. A number of uncertainties unfortunately continue to exist, including the impact of our disposition programmes, the outcome of the dredging trial currently in progress and the excess inventory situation that still prevails in our equipment operation.

On behalf of the Board, I would like to express our appreciation to our employees who have worked effectively and with dedication during the past year.

SUBSEQUENT EVENTS

Proposed Amalgamation

On March 16, 1979, the Corporation announced that agreement in principle had been reached between Bovis Limited, the controlling shareholder of Bovis Corporation, and James F. Kay, a well-known Toronto businessman, to sell the shares owned by Bovis Limited in the Corporation at the price of 75¢ per share (Canadian). The agreement in principle provided for an amalgamation of the Corporation with Peel-Elder Developments Limited, a corporation presently owned by Hatleigh Corporation, provided that the shareholders of Hatleigh Corporation and of its parent, North Canadian Oils Ltd., approved of the sale of Peel-Elder Developments Limited to an investment company owned by Mr. Kay prior to the amalgamation.

Under the terms of the proposed amalgamation, all shareholders of the Corporation, including Bovis Limited, would receive for each common share of Bovis Corporation Limited, one non-voting redeemable preference share with a par value of 75¢ (Canadian) which would then be redeemed for 75¢ cash per share. Mr. Kay's investment company would receive all the common shares of the amalgamated corporation.

Details of the proposed transaction will be outlined in the information circular which will be mailed to all the shareholders of the Corporation in conjunction with the shareholders' meeting to be called to approve the amalgamation. The Corporation, management and the board of directors are taking a neutral position on this proposal in order that the shareholders may have full scope to independently decide the matter. However, every effort will be made to provide to the shareholders all possible information relevant to the decision in the information circular.

Litigation

On May 5, 1979, a subsidiary of the Corporation, McNamara Corporation Limited was found guilty on criminal charges of conspiring to defraud the government by rigging bids for dredging work during the period from 1967 to 1974. The date for hearing argument from counsel on sentencing has been set for June 4, 1979. The Crown has indicated that it will ask for very substantial fines to be levied against McNamara and the other defendants who have been found guilty of the charges.

The trial related to the foregoing lasted 14 months and was extremely complicated and costly. At the present time the Corporation is exploring the appeal procedures available to it but until sentencing is concluded in mid-June no final assessment of the potential liability can realistically be determined.

Respectfully yours,

R. MacTavish
President and Chief Executive Officer
May 7, 1979

Bovis Corporation Limited

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 1978
(with comparative figures for 1977)

ASSETS		1978	1977
CURRENT			
Accounts and notes receivable, including $2,729,000 retained by customers in accordance with contract provisions (1977 - $989,000)		$17,093,000	$10,402,000
Inventories		18,164,000	15,232,000
Construction contracts in progress		641,000	295,000
Prepaid expenses		122,000	151,000
Assets held for disposal, at estimated realizable value (Note 3)		20,152,000	19,565,000
Property for sale or under development		1,788,000	1,649,000
Current portion of mortgages receivable		1,455,000	548,000
		59,415,000	47,842,000
Mortgages receivable, net of current portion (Note 4)		3,394,000	4,706,000
Land held for future development		4,430,000	3,743,000
Sundry Assets		527,000	524,000
Loans re Share Participation Plan (Note 5)		407,000	428,000
Property, Plant & Equipment			
Unencumbered	$26,728,000		
Encumbered by lease or conditional sale contracts (Note 9)	19,050,000		
	45,778,000		
Less: accumulated depreciation	21,695,000	24,083,000	17,429,000
		$92,256,000	$74,672,000

On behalf of the Board:

.... Director

.... Director

See accompanying notes to

AUDITORS' REPORT

The Shareholders,
Bovis Corporation Limited.

We have examined the consolidated statement of financial position of Bovis Corporation Limited as at December 31, 1978 and the consolidated statements of earnings and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

LIABILITIES	1978	1977
CURRENT		
Bank indebtedness (Notes 3 and 6)	$11,308,000	$ 5,065,000
Accounts, notes payable and accrued charges (Note 7)	23,999,000	16,995,000
Indebtedness on assets held for disposal, including bank indebtedness of $385,000 (1977 — $819,000) (Note 3)	12,659,000	12,366,000
Mortgages on property for sale or under development (Note 8)	166,000	536,000
Income taxes payable	4,150,000	4,652,000
Deferred income on construction contracts	745,000	28,000
Current portion of term bank loans	1,000,000	1,000,000
Current portion of obligations under lease and conditional sale contracts	3,663,000	2,697,000
	57,690,000	43,339,000
Term Bank Loans (Note 6)	3,500,000	1,500,000
Obligations under lease and conditional sale contracts (Note 9)	11,099,000	8,330,000
Mortgages on land held for future development (Note 10)	1,848,000	1,671,000
SHAREHOLDERS' EQUITY		
Capital stock (Note 5)		
Authorized		
15,000,000 shares without par value		
Issued		
14,102,516 shares	20,614,000	20,614,000
Contributed surplus	8,179,000	8,179,000
	28,793,000	28,793,000
Deficit	10,598,000	8,885,000
	18,195,000	19,908,000
Less 85,966 shares acquired at cost	76,000	76,000
	18,119,000	19,832,000
	$92,256,000	$74,672,000

dated financial statements.

In our opinion, subject to the resolution of the matters described in Note 17, these consolidated financial statements present fairly the financial position of Bovis Corporation Limited as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change (with which we concur) to the capitalization of leases and depreciation referred to in Note 2 to the financial statements, on a basis consistent with that of the preceding year.

Toronto, Ontario
February 20, 1979.

Touche Ross & Co
Chartered Accountants

Bovis Corporation Limited

CONSOLIDATED STATEMENT OF EARNINGS AND DEFICIT

FOR THE YEAR ENDED DECEMBER 31, 1978
(with comparative figures for 1977)

	1978	1977
Gross revenue (Note 13)	$76,710,000	$56,753,000
Costs and expenses		
Cost of sales and other expenses	71,973,000	52,605,000
Depreciation	2,762,000	2,343,000
Interest	2,351,000	1,723,000
	77,086,000	56,671,000
(Loss) earnings from ongoing operations before claim recovery and provision for income taxes	(376,000)	82,000
Recovery of California claim, net of related income taxes	—	5,694,000
(Loss) earnings from ongoing operations	(376,000)	5,776,000
Loss from discontinued operations (Note 3)	(1,337,000)	(4,612,000)
Net (loss) earnings for the year	(1,713,000)	1,164,000
Deficit at beginning of year, as restated	8,885,000	10,049,000
Deficit at end of year	$10,598,000	$ 8,885,000
(Loss) earnings per share	($0.12)	$0.08

See accompanying notes to consolidated financial statements.

Bovis Corporation Limited

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED DECEMBER 31, 1978
(with comparative figures for 1977)

	1978	1977
SOURCE OF FUNDS:		
From operations		
Ongoing		
Earnings (loss)	($ 376,000)	$ 5,776,000
Depreciation	2,762,000	2,343,000
	2,386,000	8,119,000
Discontinued		
(Loss)	(1,337,000)	(4,612,000)
Depreciation	—	7,000
	(1,337,000)	(4,605,000)
Reduction in net assets of discontinued operations	140,000	10,964,000
	(1,197,000)	6,359,000
	1,189,000	14,478,000
Increase (decrease) in accounts, notes and income taxes payable	6,502,000	(1,437,000)
Reduction in property and other net assets of ongoing operations	150,000	2,935,000
	7,841,000	15,976,000
USE OF FUNDS:		
Additions to property, plant and equipment, net	9,416,000	4,319,000
Less net increase in related obligations under lease and conditional sale contracts	3,735,000	2,179,000
	5,681,000	2,140,000
Increase (decrease) in accounts receivable, inventories and contract work in progress	9,969,000	(464,000)
	15,650,000	1,676,000
(Increase) decrease in bank borrowings	(7,809,000)	14,300,000
Bank indebtedness, including term loans at beginning of year	(8,384,000)	(22,684,000)
Bank indebtedness, including term loans at end of year	($16,193,000)	($ 8,384,000)

See accompanying notes to consolidated financial statements.

Bovis Corporation Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1978

1. Summary of significant accounting policies

a) The consolidated financial statements include the accounts of the Company and its subsidiary companies.

b) Recognition of income

i) Income from construction projects and construction joint ventures is recognized on the percentage of completion method.

ii) It is the policy of the Company not to reflect construction or other claims in the financial statements until the compensation has been awarded, but to expense the costs relating to such claims as incurred.

iii) The Company's accounting policies relating to its property development activities have been established in accordance with the recommendations of the Canadian Institute of Public Real Estate Companies.

The Company follows the policy of capitalizing as part of the cost of property for sale or under development and land held for future development:

— direct carrying costs such as mortgage interest, realty taxes and other costs which pertain to such properties, and

— interest on general borrowings considered applicable.

The total of such costs included in the cost of properties held for sale or under development or land held for future development as at December 31, 1978 amounted to $1,925,000 (1977 — $1,390,000).

iv) Income from property transactions is recognized as follows:

Land sales — when all material conditions have been fulfilled, at least 15% of the purchase price has been received and interest is accruing at a reasonable rate on the balance due under the sale.

c) Inventories and construction contracts in progress are valued at the lower of cost and net realizable value.

d) Property, plant and equipment is stated at cost and depreciated over the estimated useful life of the related assets principally on the straight-line method. Expenditures for maintenance and repairs which do not materially extend the life of assets are charged to operations.

e) Leases are classified as capital or operating leases. A lease that transfers substantially all of the benefits and risks incident to the ownership of property is classified as a capital lease. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred. At the inception of a capital lease, an asset and an obligation are recorded at an amount equal to the lesser of the present value of the minimum lease payments and the property's fair value at the beginning of such lease. Assets recorded under capital leases are amortized on the same straight-line method described in "d" above.

2. Accounting changes

In 1978 the Company changed its method of accounting for leases to comply with the provision of the Canadian Institute of Chartered Accountants recommendation on "Leases". This recommendation requires that leases meeting certain criteria be capitalized and depreciated over their estimated useful life, with appropriate charges to operations for the interest portion of rental payments. The application of the recommendation is effective for leases entered into after January 1,1979 although earlier retroactive application is encouraged. The Company has elected to retroactively adopt the recommendation and additionally has changed its depreciation policy on heavy construction equipment from a diminishing-balance method to straight-line method. Accordingly, the financial statements of prior years have been restated. As a result of these accounting changes, the 1978 loss was reduced $54,000 and the 1977 net earnings increased $11,000. The balances of deficit at January 1, 1978 and 1977 have been restated for the effect of applying retroactively the new method of accounting.

	1978	1977
Deficit at beginning of year		
As previously reported	$8,929,000	$10,082,000
Adjustment for the effect on prior years of applying retroactively the new method of accounting for leases and depreciation	44,000	33,000
As restated	$8,885,000	$10,049,000

3. Discontinued Operations

a) During 1978 the Company continued the disposition programme commenced in 1976. The gross assets and liabilities of the discontinued operations were significantly increased during the year when re-acquisition of the assets of the Ontario Housing Division was necessitated as a result of the insolvency of the purchaser and his default on the note secured by these assets.

The earnings or losses from operations in the discontinued programme and the costs incurred and expected to be incurred in the future on an orderly disposition, have been reflected on the consolidated statement of earnings under the caption "loss from discontinued operations".

The following is a summary of the discontinued operations:

	1978	1977
Net sales	$5,639,000	$11,987,000
Costs and expenses	6,976,000	15,613,000
	1,337,000	3,626,000
Net loss on sale of investment in Consolidated Building Corporation Limited	—	986,000
Net loss	$1,337,000	$ 4,612,000

The above costs and expenses include interest of $1,307,000 (1977 — $1,225,000).

b) The remaining assets of the discontinued businesses are valued at estimated net realizable values and are grouped on the consolidated financial statements under the caption "assets held for disposal" and include:

	1978	1977
Receivable on agreement for sale of Ontario Housing Division	$ —	$ 812,000
Ontario Housing assets re-acquired during year	3,282,000	—
Inventories of equipment	696,000	1,431,000
Commercial property and Montreal housing assets	15,096,000	16,028,000
Mortgage loans	1,078,000	1,294,000
	$20,152,000	$19,565,000

c) The indebtedness on assets held for disposal includes:

	1978	1977
Mortgages and mortgage advances on commercial property and housing assets (the average rate of interest on these mortgages and advances is 10.69%)	$ 9,260,000	$10,944,000
Ontario Housing Division mortgage advances	2,678,000	—
Chattel mortgages on discontinued lines of equipment	336,000	603,000
Bank letter of credit on property asset	198,000	415,000
Bank loan secured by mortgage loan portfolio of a subsidiary company	187,000	404,000
	$12,659,000	$12,366,000

4. Mortgages receivable

	1978	1977
Mortgages receivable	$4,849,000	$5,254,000
Average rate of interest	9.89%	9.72%

5. **Share participation plan**

The Company has two share participation plans under which 720,000 shares were reserved. The original plan became effective in 1971 and the second plan in 1975. The Company provides interest-free loans to officers and key employees to enable the purchase of shares.

Under the original plan, the loans may be repaid at any time and mature ten years from the purchase date. The shares purchased are held by a trustee and may be released to the employee at a rate of up to 20% per annum commencing one year after the purchase date, provided pro rata payment on account of the loan is received.

Under the second plan, loans are repayable by monthly payroll deduction over a five-year period or sooner, at the option of the employee. Shares purchased are held by a trustee and may be released to the employee in the equivalent percentage to the repayment of his loan.

Shares reserved, issued and released under these plans are as follows:

	Original Plan	Second Plan	Total
Reserved	520,000	200,000	720,000
Issued and held by trustee at January 1, 1978	410,790	81,900	492,690
Shares released during the year	—	11,950	11,950
Issued and held by trustee at December 31, 1978	410,790	69,950	480,740

Loans outstanding to officers and key employees at December 31, 1978 in connection with the purchase of shares were $407,000 (of which $135,000 was to an officer who is also a director). The 480,740 shares held by the trustee include 242,684 shares held against the aforementioned loans. The remaining shares are held against unpaid loans made to former officers and key employees.

Employees who are terminated by the Company are indemnified against loss under both plans should the proceeds on the ultimate sale of the shares by the trustee be less than the employee's related outstanding loan. Existing officers and key employees are also indemnified against loss in certain circumstances under the original plan only.

6. **Bank indebtedness, including term loans**

The bank indebtedness, including term loans is secured by accounts receivable, specified land and premises and a first floating charge on the assets of the Company and operating subsidiary companies. The term loans are repayable $1,000,000 per year to 1981 and the balance in 1982.

The Company has given covenants to its bankers that provide, among other things, for the maintenance of a minimum level of shareholders' equity and level of debt, as defined, to shareholders' equity. The Company is restricted, among other things, from paying dividends without their prior approval.

7. **Accounts, notes payable and accrued charges**

The accounts and notes payable include approximately $7,537,000 (1977 — $5,276,000) due to equipment suppliers and finance companies, which are secured by inventories of equipment.

8. **Mortgages on property for sale or under development**

	1978	1977
Mortgages on property for sale or under development	$166,000	$536,000

Mortgages on property for sale or under development will be discharged out of proceeds of sales which, it is anticipated, will be obtained prior to the maturity date of these liabilities. The average rate of interest on these mortgages is 12.02% (1977 — 9.25%).

9. **Obligations under lease and conditional sale contracts**

These obligations are due as follows:

1979	$ 4,557,000
1980	4,355,000
1981	4,731,000
1982	3,614,000
1983 and subsequent	133,000
Total obligations	17,390,000
Less amount representing interest	2,628,000
Capitalized lease and conditional sale contract obligations	$14,762,000

10. Mortgages on land held for future development

The balances at December 31, 1978 bear interest at an average rate of 11.50% and are repayable as to principal approximately as follows:

1979	$ 664,000
1980	681,000
1981	22,000
1982	22,000
1983 and thereafter	459,000
	$1,848,000

11. Remuneration of directors and senior officers

Remuneration of directors and senior officers, as defined by The Business Corporations Act — Ontario, from the Company and its subsidiary companies for the year totalled $708,000 (1977 — $615,000).

12. Pension Plan

Based upon actuarial valuation of the Company's pension plan as at December 31, 1977, the unfunded obligation as at December 31, 1978 amounts to approximately $389,000. This unfunded obligation will be paid and expensed in amounts of $49,000 per annum up to December 31, 1990.

13. Gross revenue

The gross revenue by class of business is broken down as follows:

	1978	%	1977	%
Construction	$38,213,000	49.8	$20,037,000	35.3
Marine dredging	3,202,000	4.2	5,237,000	9.2
Sales of equipment	25,102,000	32.7	17,339,000	30.6
Sales of building materials	10,193,000	13.3	8,700,000	15.3
Property development	—	—	5,440,000	9.6
	$76,710,000	100.0	$56,753,000	100.0
Discontinued operations (Note 3)	$ 5,639,000		$11,987,000	

14. Earnings (loss) per share

Earnings (loss) per share has been calculated on the basis of the weighted average number of shares outstanding during the periods.

15. Income Taxes

At December 31, 1978, the Company and its subsidiary companies, in aggregate for Canadian income tax purposes, had accumulated losses and unclaimed depreciation and other reserves, totalling approximately $22,000,000. The potential tax saving that may be achieved through the utilization of this protection totals approximately $10,800,000

Losses of prior years represent approximately $19,400,000 of the $22,000,000 total referred to above. The expiry dates for utilization of these losses is as follows:

1979	$ 1,408,000
1980	486,000
1981	10,849,000
1982	2,378,000
1983	4,279,000

16. Commitments and contingencies

a) The long-term, non-capitalized lease commitments of the Company consist of leases on premises used by the operating divisions. The aggregate annual lease cost of these commitments is estimated to be approximately $757,000 (1977 — $703,000).

b) The Company is contingently liable under recourse provisions of conditional sale contracts. The amount of such contracts outstanding at December 31, 1978 was approximately $1,700,000 (1977 — $850,000).

17. Litigation

In March 1975, a subsidiary of the Company was charged together with twelve other companies, with conspiring to defraud the Government of Canada, the Government of the Province of Ontario and the Toronto and Hamilton Harbour Commissions in connection with certain dredging contracts. The proceedings and related civil actions are currently in process and the ultimate liability, if any, of the subsidiary company cannot now be determined.